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ANNUAL REPORT OF THE EXECUTIVE DIRECTOR ON THE ACTIVITIES OF THE UNITED NATIONS OFFICE FOR PROJECT SERVICES

SUMMARY

The present report is submitted pursuant to Executive Board decision 94/32 of 10 October 1994. UNOPS has fulfilled its 1999 financial targets as set in the 1999-2000 UNOPS Business Plan, and has operated in accordance with the self-financing principle with regard to recurring expenditures. The report also summarizes UNOPS performance during the five years since its inception, highlighting actions taken to fulfil the basic tenets of the legislation that established UNOPS as a self-financing provider of services to the United Nations system. Internal oversight issues are addressed in document DP/2000/25/Add.1.

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ABBREVIATIONS

ACC	Administrative Committee on Coordination
ACABQ	Advisory Committee on Administrative and Budgetary Questions
DPA	Department of Political Affairs of the United Nations Secretariat
DPKO	Department for Peace-keeping Operations of the United Nations Secretariat
IDNDR	International Decade for Natural Disaster Reduction
IFAD	International Fund for Agricultural Development
IFI	International financial institution
ILO	International Labour Organization
OIP	Office of the Iraq Programme
IMIS	Integrated Management Information System
MCC	Management Coordination Committee
MSA	Management services agreement
OCHA	Office for the Coordination of Humanitarian Affairs
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNHCHR	Office of the United Nations High Commissioner for Human Rights
UNMIK	United Nations Mission in Kosovo
UNOPS	United Nations Office for Project Services

I. INTRODUCTION

1. The present report has been prepared in compliance with Executive Board decision 94/32 of 10 October 1994, in which the Board requested the Executive Director to report annually on the activities of the United Nations Office for Project Services.

2. As mandated in decision 95/1 of 10 January 1995, the report has been reviewed and cleared by the Management Coordination Committee.

3. The 1999-2000 UNOPS Business Plan, distributed to members of the Executive Board at the third regular session 1999, establishes the targets against which performance is assessed in the present report.

II. FINANCIAL PERFORMANCE

4. Since its inception, the UNOPS portfolio has been composed of two categories of projects: (a) the project portfolio, for which UNOPS handles the funds entrusted by its clients and incurs project expenditures and (b) the "services only" portfolio, where UNOPS renders services for which it charges a fee and where expenditure of project funds, if any, is incurred by parties other than UNOPS. Income derived from the project portfolio is traditionally expressed as a percentage of the amounts spent on behalf of UNOPS clients. The income earned on the services only portfolio is instead expressed as a dollar amount that is linked to the services provided rather than to the dollar amount of the project funds. As seen in figure 1, the value of the total UNOPS portfolio grew from $3.5 billion in 1998 to $3.7 billion in 1999 (an increase of 5.7 per cent). This includes $566 million of new acquisitions for the project portfolio and $652 million for the services only portfolio.

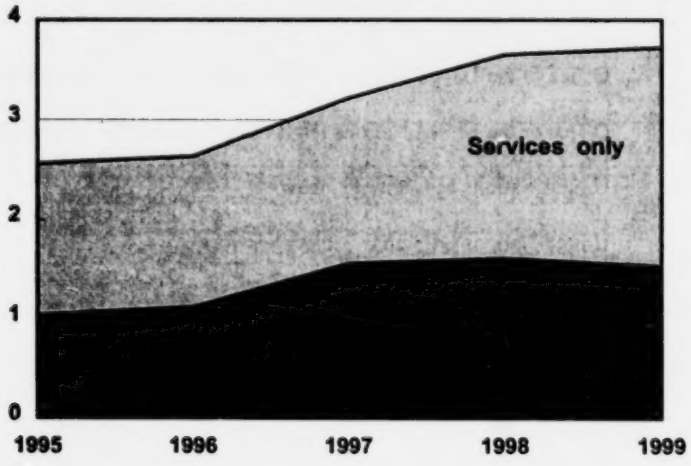


Figure 1. UNOPS portfolio composition (in billions of dollars)

5. The composition of the project portfolio acquired in 1999 shows a number of substantial changes. Projects funded from UNDP regular resources continued to decrease, by $111 million or 36 per cent as compared to the previous year (see figure 2(a)). Similarly, the total value of new projects funded by the UNDP trust funds and UNDP-administered funds acquired in 1999 returned close to the value of 1997 (see figure 2(b)). However, newly

acquired management services agreements, under arrangements signed by UNDP with international financial institutions, grew from $50 million in 1998 to $73 million in 1999 (see figure2(c)), including a new project in Tajikistan utilizing loan resources from the Asian Development Bank. In the services only sector (figure 2(d)), the total value of new projects funded by IFAD and assigned to UNOPS supervision and loan administration in 1999 increased by 129 per cent , from $284 million in 1998 to $652 million in 1999 (see paragraph 22).

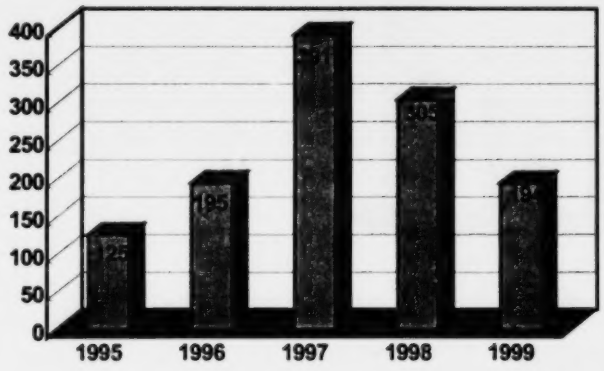


Figure 2(a). Portfolio acquisitions from UNDP Regular resources (in millions of dollars)

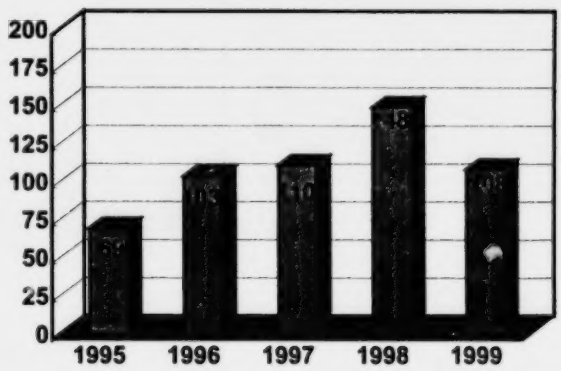


Figure 2(b). Portfolio acquisitions from UNDP trusts funds and UNDP-administered funds (in millions of dollars)

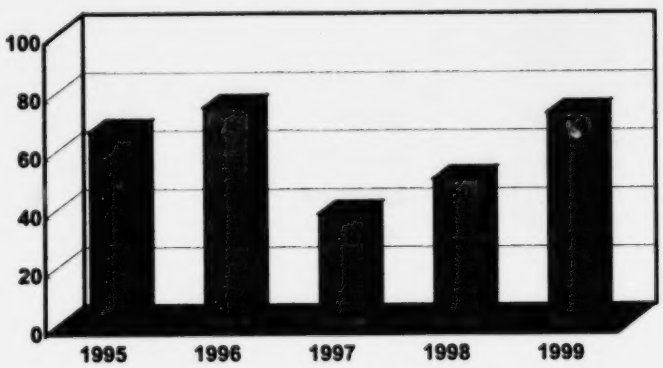


Figure 2(c). Portfolio acquisitions from IFIs, under arrangements signed by UNDP (in millions of dollars)

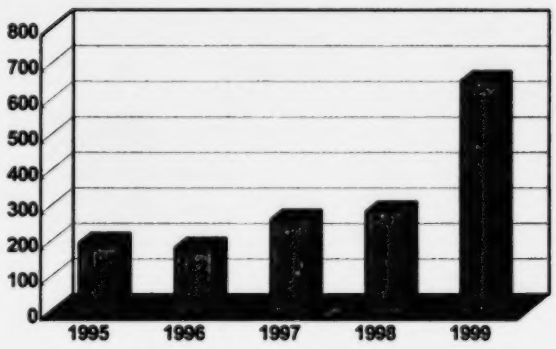


Figure 2(d). Services only acquisitions from IFAD (in millions of dollars)

6. In document DP/1999/22, the Executive Director reported that the Department for Political Affairs, the Department for Peace-keeping Operations and the Office of the High Commissioner for Human Rights, among others, used UNOPS services for the first time in 1998. In 1999, the volume of services requested by these three organizations reached $33 million, an increase of 22 per cent from $27 million in 1998. In addition, the new portfolio from more traditional United Nations clients, such as UNDCP and associated United Nations organizations based in Vienna, almost tripled in 1999, from $13 million in 1998 to $36 million in 1999. In total, the portfolio

acquisition with clients other than UNDP more than doubled in 1999, rising from nearly $49 million in 1998 to $101 million in 1999 (see figures 2(e) and 3).

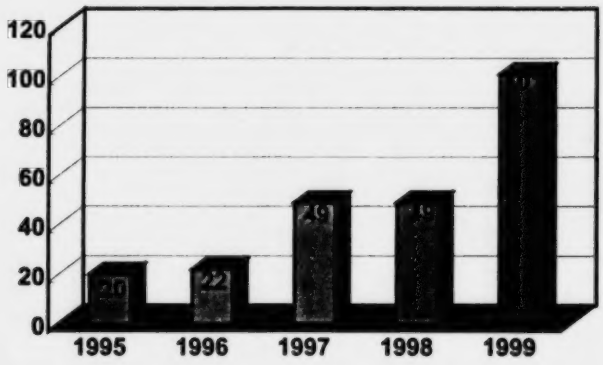


Figure 2(e) Portfolio acquisitions from United Nations entities other than UNDP (in millions of dollars)

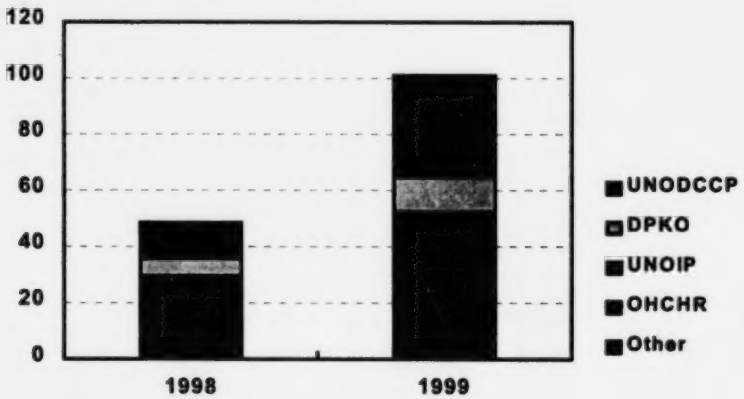


Figure 3. Portfolio acquisitions from organizations of the United Nations other than UNDP (in millions of dollars). The "Other" category includes DPA, IFAD, IDNDR, ILO, UNHCR, UNMIK

7. Total delivery stood at $764 million in 1999, comprising $568 million in expenditures on the project portfolio and $196 million in disbursement authorizations processed for IFAD-funded projects, under the services only portfolio. While UNOPS has responsibility for 53 per cent of the total IFAD project portfolio under implementation, the disbursements authorized by UNOPS correspond to 69 per cent of all loan disbursements made by IFAD in 1999. Total delivery showed in 1999 an overall increase of 7 per cent over 1998 (see figure 4). These results are compared with delivery targets of $550 million for the project portfolio and $257 million in authorized disbursements on the services only portfolio.

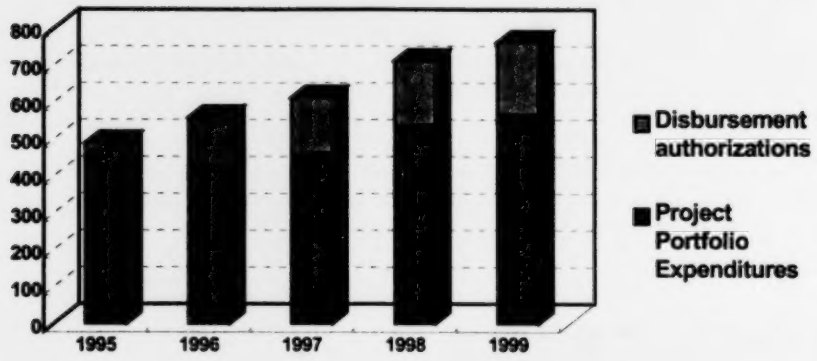


Figure 4. UNOPS delivery (in millions of dollars)

8. In 1999, UNOPS continued to provide a significant volume of services to nationally executed projects, both for UNDP and other United Nations clients. Delivery within projects under national execution continued an upward trend in 1999, although less sharply than in 1998 (see figure 5). Highlights of new services provided by UNOPS in 1999 under nationally executed projects are given in paragraphs 23 and 24.

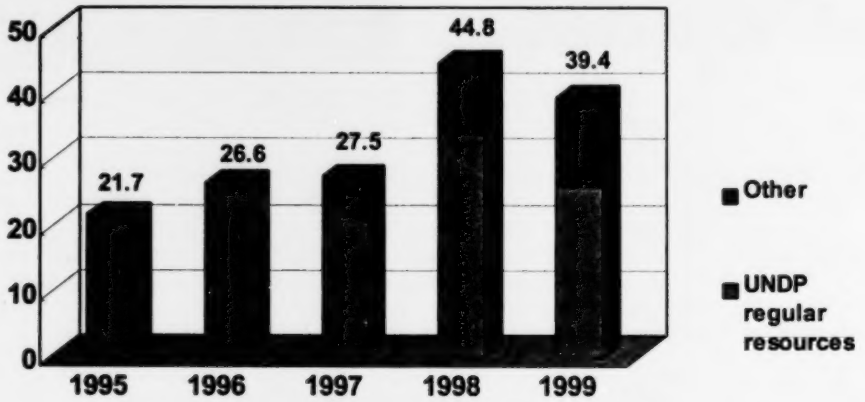


Figure 5. UNOPS delivery under nationally executed projects (in millions of dollars)

9. Actual income for 1999 amounted to $51.5 million, distributed as follows: $43.0 million from delivery of the project portfolio; $5.8 million from loan-administration and project-supervision services; and $2.7 million in other income. As expected, the income derived from sources other than UNDP rose from over $8 million in 1998, or a share of 16 per cent of total UNOPS income for that year, to $11 million in 1999, corresponding to a share of 21 per cent of total UNOPS income. The actual income for 1999 reached 101 per cent of the target, which had been set at $51.1 million.

10. Regarding administrative expenditure, in 1998 the Executive Director proposed to break down the total for expenditure into the two categories of recurring and non-recurring expenditure (document DP/1998/35). This proposal was endorsed by the Advisory Committee on Administrative and Budgetary Questions in document DP/1998/36, and approved by the Executive Board in its decision 98/20 of 21 September 1998. Since then, administrative expenditure has been reported accordingly (see also document DP/1999/39). Recurrent administrative expenditure, projected at $48.1 million for 1999, stood at $48.6 million by the end of the year. The

requirements of the self-financing principle, which call for income to exceed administrative costs, were therefore fulfilled in 1999 with regard to recurring administrative costs (see figure 6).

11. Non-recurring expenditures comprised expenditures incurred for the implementation of the Integrated Management Information System and Year 2000 (Y2K) transition, and for the relocation of headquarters premises. Non-recurring expenditure related to IMIS/Y2K, projected at $4.0 million for 1999, was in the amount of $2.7 million whereas relocation expenditures, projected at $8.5 million, amounted to $14.0 million (see paragraphs 34 through 38 for a detailed description of this expenditure). The resulting gap between total income and total administrative expenditure has required a drawdown from the operational reserve in the amount of $13.8 million (see paragraphs 13 and 14 and figure 7).

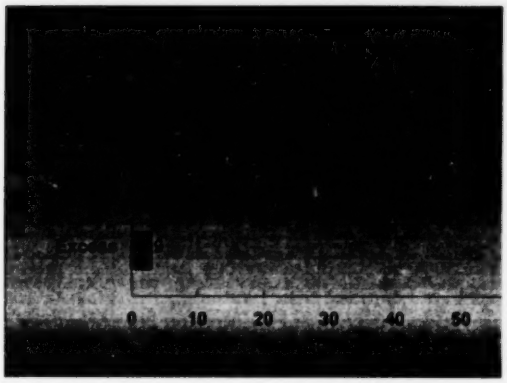


Figure 6. 1999 coverage of recurring administrative expenditure by income (in millions of dollars)

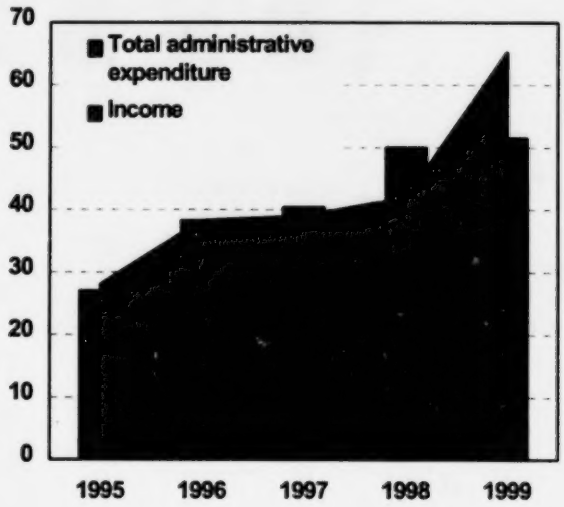
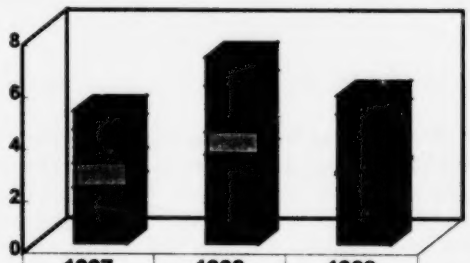


Figure 7. Income and total administrative expenditure (in millions of dollars)

12. The amount paid by UNOPS to UNDP in 1999 for the provision of all central services, including those provided by the Executive Board secretariat was in the amount of $2.8 million. The amount transferred directly to UNDP country offices, $2.2 million in 1999, increased by 19 per cent over the 1998 value of $1.8 million. Data referring to 1997, 1998 and 1999 are contained in figure 8.



	1997	1998	1999
Other UN agencies	0.7	1.1	0.7
Country offices	1.3	1.8	2.2
UN central services	0.9	0.9	0.1
UNDP central services	2.2	3.4	2.7

Figure 8. Amounts paid to UNDP and the United Nations from UNOPS income for project support and administrative services rendered (in millions of dollars)

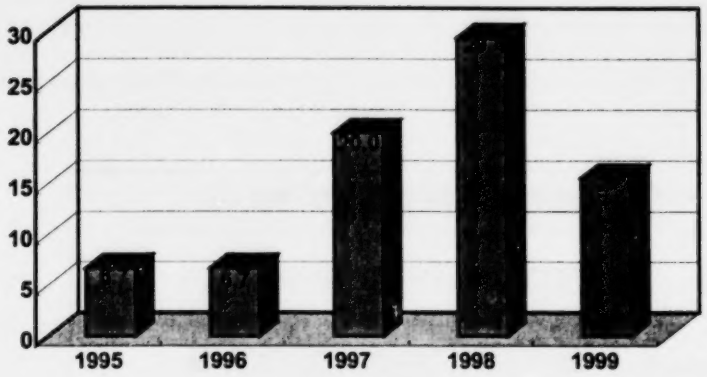


Figure 9. Level of the UNOPS operational reserve (in millions of dollars)

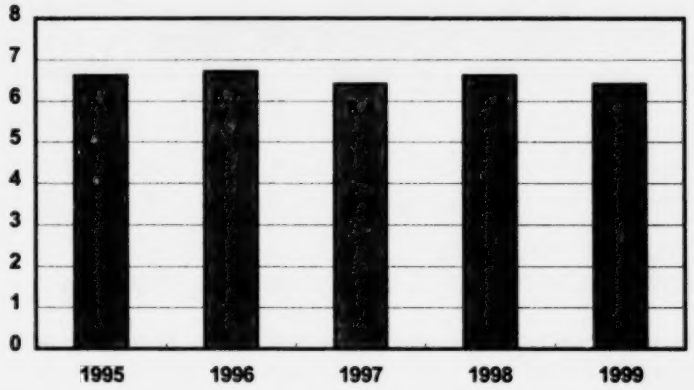


Figure 10. Average overhead rates in percentages

13. According to the guidelines established by the Executive Board for the operational reserve, the level of the operational reserve should have reached $25.4 million at 1 January 2000. However, in its decision 98/20 of 23 September 1998, the Executive Board authorized financing of the one-time non-recurrent expenditures for information systems and relocation of its headquarters offices from a drawdown on the operational reserve, to the extent that this would be necessary. This decision was confirmed by the Board in its decision 99/16 of 15 September 1999, in which it took note of the report of the Executive Director on the level of the operational reserve (see document DP/1999/40). In that report, the Executive Director projected a $9.5 million drawdown in 1999 and $1.5 million in 2000. Preliminary data indicate that the required drawdown in 1999 amounts to $13.8 million, bringing the level of the operational reserve to $15.6 million (see figure 9).

14. This level of the operational reserve at the beginning of 2000 is 22 per cent below the level of $19.9 million, which was projected in the revised budget estimates for the biennium 1988-1999 (see document DP/1999/39) and 39 per cent higher than the level of $11.2 million, which was originally approved by the Executive Board in its decision 98/20 of 23 September 1998. The Executive Director reiterates that the restoration of the reserve to the prescribed level will begin in 2001, as was indicated in document DP/1999/40.

15. The administrative overhead rate, representing recurring administrative costs incurred for project services rendered is one indicator of competitiveness. Since its inception, UNOPS has monitored this parameter and has striven to maintain it as low as possible. For 1999, as in previous years, the average overhead rate calculated in relation to recurring administrative costs has remained below 7 per cent (see figure 10).

16. The financial performance of UNOPS in 1999 came close to the targets that had been set for the year in the 1999-2000 Business Plan—realistic estimates of the impact of disruptions caused by the implementation of IMIS and headquarters relocation had been built into the Plan. As figure 11 shows, UNOPS overall performance indicates that this impact was projected accurately. Thanks to an unprecedented by high value of the new services only portfolio acquired in 1999, the $1 billion mark for acquisition was crossed again; the $700 million mark for delivery was surpassed again; and the 100 per cent mark for the income target was surpassed again.

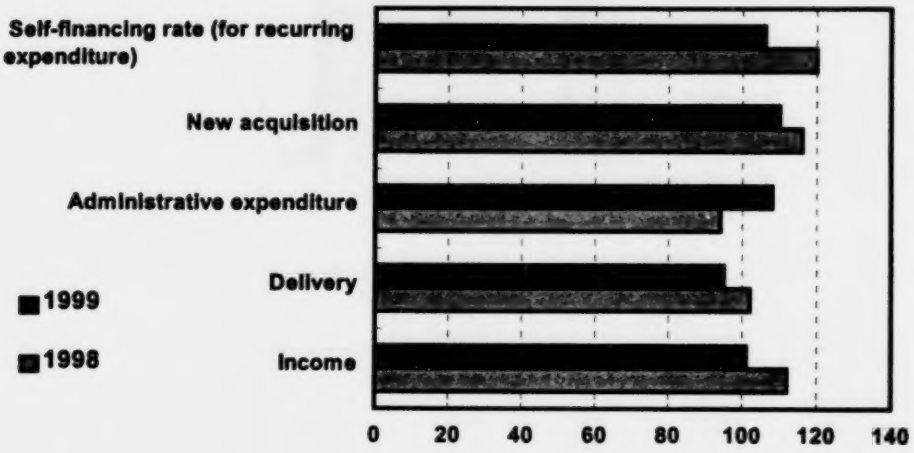


Figure 11. 1998 and 1999 performance as a percentage of Business Plan targets

III. REVIEW OF NON-FINANCIAL OBJECTIVES AND ACTIVITIES

17. Taking into account the business environment prevailing in 1999, and the limited resources available internally for undertaking tasks beyond the IMIS and Y2K challenges while maintaining quality and delivery standards, UNOPS adopted a deliberate strategy of focusing on priorities that were realistically attainable under prevailing circumstances. The main corporate objectives established for 1999-2000 therefore were: managed growth and the development of human resources and core competencies.

A. Managed growth

18. UNOPS was established in 1995 to fill specific demands of the United Nations system for project services, ranging from the management of multidisciplinary projects to specialized services in the implementation of project components. By managed growth therefore, UNOPS means the development of new products in response to an increasingly diverse clientele. Some of the 1999 achievements are highlighted in paragraphs 19 through 24. Major breakthroughs were achieved in diversifying both the client base and the nature of services rendered to the clients, as paragraphs 5 and 6 indicate.

19. UNOPS manages mine-action projects on behalf of the Department of Peace-keeping Operations, the Office of the Iraq Programme and UNDP. UNOPS responsibility is to provide overall management of the United Nations support, to identify and procure skills and equipment needed, to draw up complex donor agreements, to develop the capacity of national organizations to ensure sustainability, to oversee mine surveys, to ensure that international safety standards are followed and to build networks of rehabilitation centres. In 1999, when many groups converged in Kosovo to assist in the rehabilitation and reconstruction of the subregion, UNOPS utilized its implementation model to help to orchestrate mine action through the establishment and operation of the United Nations Mine Action Coordinating Centre.

20. Reconstruction and social rehabilitation of societies in post-conflict situations have required a concerted effort of different organizations that are dedicated to humanitarian and development activities. On behalf of major

clients such as UNDP, DPKO, DPA, the Office for the Coordination of Humanitarian Affairs, the Office of the United Nations High Commissioner for Refugees, and bilateral donors acting through UNDP, UNOPS has provided a variety of management and other services to more than 20 countries in post-conflict situations. For this, UNOPS has developed a specific operational methodology, tailored to meet local conditions, that is proving to be a powerful tool to achieve progress. The methodology is based on the principles that communities as a whole, not just target groups, must benefit from the assistance; that material and social needs must be addressed simultaneously, through building physical structures along with restoring education and health services; and that economic and social revitalization processes are to be tackled in parallel. In 1999, confidence in the methodology gained a new partner to for UNDP and UNOPS: the Asian Development Bank joined UNDP in the funding of a rehabilitation programme in Tajikistan.

21. In response to client demand, UNOPS has developed another group of specialized management services to support modernization and strengthening of democratic processes. Often the process begins with free elections, which, in partnership with Governments and specialized international and regional entities, UNOPS can organize in every aspect—from administering civic education campaigns to arranging transport of ballot boxes and observers to hard-to-reach locations. In 1999, the experience gained by UNOPS in the organization of election in 12 countries was put to the test in Nigeria, where UNOPS assembled an electoral observation team in a very short time and provided the logistical support that helped the smooth implementation of the project. Once elections are over, the programmes that allow democracy to take hold can move forward. UNOPS is often called on to implement these programmes. In these cases, UNOPS responsibility entails the breaking down of reforms into manageable tasks; the recruitment of experienced parliamentarians and jurists to advise legislators; and the procurement of software to track cases for the courts. UNOPS major clients for these services are the Electoral Assistance Division, UNDP, the European Commission and bilateral donors acting through UNDP.

22. The services only sector showed robust growth in 1999, mainly as a result of the decision by IFAD to transfer to UNOPS the supervision of 14 agricultural investment projects that were previously supervised by the World Bank, in addition to 44 new projects already planned for assignment to UNOPS. In taking this decision, the President of IFAD expressed his appreciation for UNOPS responsiveness to IFAD requirements, for the cost-effective services that UNOPS provides and for UNOPS commitment to the IFAD mission to eliminate rural poverty. The portfolio of IFAD-funded projects that are under UNOPS supervision and related loan administration amounted to over $2.2 billion at the end of 1999 (see figure 1).

23. A positive trend regarding services rendered by UNOPS for the implementation of nationally executed projects has been a rapid increase in 1999 in UNOPS support to UNDP-funded projects in Asia. In the case of community-based poverty-alleviation programmes, the UNOPS approach, derived from the experience accumulated in the supervision of more than 50 projects funded by IFAD loans in the region, is to improve project delivery and performance, as well as national capacity in project design and management. In other cases, such as in Bangladesh, where UNOPS implements the nationally executed parliament- and governance-related programmes, UNOPS provides an operational management support package that ensures government substantive ownership of project processes and results while distributing and establishing in a transparent manner the responsibilities and role of each project stakeholder. UNOPS supervises the work flow, facilitates workplanning and input sourcing and assumes limited responsibility in the custody of funds.

24. In yet different situations, UNOPS provides customized procurement services, particularly when complex international or national bidding processes are required. UNOPS services range from carrying out the entire procurement process leading to contract signature by the government entity served, to awarding and signing the contract, thereby assuming contracting risks and responsibilities on behalf of the client, and managing the financial resources. Related to the former process, UNOPS provided these procurement services in 1999 to the Government of Peru, leading to the signature of contracts with a total value of $272 million.

B. Development of human resources and core competencies

25. In 1999, in addition to the day-to-day administration services provided by the Human Resources Management Section to projects and UNOPS at large, much time was dedicated to three main tasks: the implementation of the interface between the IMIS human resources module and the IMIS finance module; laying the basis for a staff training strategy; and the attainment of delegated authority in personnel matters (see paragraph 29).

26. The UNOPS Asia office undertook a pilot effort in 1999 to identify a methodology for competency-based staff appraisal and training. On the basis of this pilot, which is presently ongoing, UNOPS has commissioned a wider study to include all staff. The implementation of the study recommendations is expected to be completed by the end of 2000.

27. In 1999, UNOPS intensified the training of project managers based in the field. Five training workshops were organized, as follows: in Avully (France), a workshop for managers of post-conflict rehabilitation programmes was organized; in Zagreb, the first training workshop for mine-action programme managers was conducted; two training workshops, one in Abidjan and the other in Pretoria, were held for managers of UNDP-funded programmes in Africa; and in Bulawayo (Zimbabwe), a workshop for national directors and administrators of IFAD-funded programmes was undertaken.

28. All workshops cover core management and administrative topics—financial administration, procurement process and contract administration, preparation of workplans, relations with clients and communications, design and quality guidelines, technical standards, sector best practices—required for effective programme management. Participation included staff of the clients and invited speakers and participants from institutions specializing in the technical field of the programmes. UNOPS plans to continue pursuing these activities vigorously in 2000 and beyond.

IV. DELEGATION OF AUTHORITY IN PERSONNEL MATTERS

29. In its decision 99/17 of 15 September 1999, the Executive Board requested that the Administrator delegate to the Executive Director, as a first step, the authority to issue UNOPS letters of appointment and to administer the staff of UNOPS in accordance with the United Nations Staff Regulations and Rules. It further requested that the Executive Director submit at the annual session 2000 a detailed report on the steps taken to implement the decision. The Executive Director wishes to report that constructive consultations have taken place between UNDP and UNOPS on the implementation of this decision. Final arrangements, however, are not yet in place. The Executive Director is confident that arrangements will be concluded soon and proposes that the detailed status report be submitted for the consideration of the Executive Board at its first regular session 2001.

V. UPDATE ON ONGOING MATTERS

A. Integrated Management Information System and Y2K

30. Implementation of IMIS Releases 1, 2 and 3 at headquarters, including most training of current staff, is complete. Expenditure in 1999 on IMIS implementation and Y2K preparedness, the bulk of which went into training, backstopping, and making existing systems compatible with IMIS, was $2.7 million, or $1.3 million under the approved budget. (UNOPS incurred no significant systems development costs to IMIS itself.)

31. While the technical and security issues that enable IMIS access from remote installations have been resolved, only the Asia Office has been given access to IMIS in 1999. The use of IMIS from remote installations continues to be hampered, however, by limited access during non-New York working hours. Although most of the access limitations have stemmed from priority necessarily having been given to the liquidation of sizeable data backlogs, data clean-ups and year-end closing processes of UNDP, UNFPA, and UNOPS, the viability of remote-access facilities depends upon increasing the window of availability to locations away from New York.

32. Many of the problems encountered in the first year of using IMIS are expected to be less significant in 2000 and subsequent years although some of them will still require attention in 2000. Uncertainties remain as to the impact of delays relating to IMIS Release 4 and to slow progress in common IMIS governance arrangements. Building on one year of IMIS experience, however, UNOPS will invest in information systems developments in 2000 that will more effectively integrate and improve upon IMIS capabilities.

33. UNOPS financial reporting on projects depends heavily on information reported from UNDP country offices. These data flows, dependent upon country office systems that required adaptation to the IMIS chart of accounts, were not regularized until the fourth quarter. Consequently, UNOPS experienced significant difficulties in fulfilling reporting obligations to its clients. Numerous clients have expressed dissatisfaction with the shortcomings

in reporting, many indicating that their continued use of UNOPS services is contingent upon resolving reporting problems. The resolution of this issue is a key priority for 2000.

34. In addition to participating actively in the Y2K preparedness activities of the United Nations and of UNDP, UNOPS mounted its own aggressive Y2K compliance programme. UNOPS-developed materials were distributed to project managers and to partner organizations, complemented by a help site maintained on the UNOPS intranet. No significant Y2K-related incidents were reported.

B. Update on the headquarters relocation project

35. The relocation of headquarters premises, scheduled for the end of September 1999 actually occurred in mid-December 1999, although final completion of non-essential construction is still pending at the time of writing. The revised budget for 1999, contained in document DP/1999/39 and approved by the Executive Board in its decision 99/15 of 15 September 1999 estimated the 1999 costs of the relocation of UNOPS headquarters at $8.5 million. Actual 1999 cost is in the amount of $14.0 million, corresponding to an increase of $5.5 million.

36. This direct cost increase resulted from three main factors. First, the cost of additional furniture for common areas and conference rooms, totaling about $0.4 million, were not included in the revised budget estimates, as well as $0.1 million that corresponds to underestimating the cost of sound-masking equipment. Second, a higher-than-anticipated number of complex adjustments were necessary in response to specific conditions of the new premises encountered during final design and construction (these included variations in ceiling heights, column size and placements, and floor slab conditions not previously documented). The related construction costs were further compounded by the unprecedentedly tight labour market in 1999 and amounted to $2.2 million, primarily for electrical and air circulation systems, and $0.3 million in related architectural and engineering services.

37. Third, a number of significant changes and enhancements to the original design were decided on during construction. These were necessary to ensure enhanced performance of the computer and communications network, enhancements to conference rooms and office units, and associated architectural and engineering services, corresponding to a total of $0.4 million in additional costs. In addition, a decision was taken to replace and upgrade the telecommunications system at the cost of $0.4 million. This item was not included in the approved relocation budget.

38. In addition, the three-month delay in actual relocation, primarily due to longer-than-expected lead times for the delivery of essential equipment and supplies, and the additional time required for the adjustments referred to in paragraphs 36 and 37, caused unforeseen additional rental costs and penalties for the old premises, totaling a $1.3 million expenditure above the projected amount for this item. This figure corresponds to maximum exposure; the actual figure is currently under negotiation. Furthermore, the amount of $0.4 million in budgeted contributions to construction was received in 2000. Table 1 summarizes recurring and non- recurring costs incurred in 1999 compared with approved amounts.

C. Cost calculation and fee setting

39. UNOPS continues to apply to individual projects a workload-based fee-calculation system developed some years ago and updated in 1999 and has investigated several other formula-based mechanisms. The search for greater transparency and precision, however, continues. An accurate fee-setting system is directly linked to a sound methodology for tracking and monitoring all costs (including reimbursements to UNDP and the United Nations for central services and to the country offices for project services rendered) and must be sustained by an efficient information system. UNOPS has therefore decided to conduct a pilot test of time-tracking software in 2000 that associates a staff member's work with specific tasks or projects, as is frequently done in the private sector. Preliminary results are anticipated before the end of 2000.

	1999 Approved budget	1999 Actual
Total income	51.1	51.5
Recurring administrative expenditure	48.1	48.6
Non-recurring administrative expenditure	12.5	16.7
- Implementation of IMIS and Y/2K compliance	4.0	2.7
- Relocation of headquarter premises	8.5	14.0
Total administrative expenditure	60.6	65.3
Drawdown from the operational reserve required	9.5	13.8
Level of operational reserve after drawdown	19.9	15.6
Relocation costs summary		
- Construction	9.9	13.1
- Information systems upgrade	1.8	2.0
- Staff costs	0.3	0.3
- Contribution to construction	(3.5)	(3.1)
Net budget	8.5	12.3
- Telecommunications system upgrade	-	0.4
- Rental and related penalties	-	1.3
Total budget	8.5	14.0

Table 1. Summary of administrative expenditure incurred in 1999 compared with approved amounts (in millions of dollars)

D. Organizational structure

40. The UNOPS approach to organization and management has evolved fast in response to the constantly changing environment in which it operates. In such an environment, reviews need to be carried out from time to time in order to determine whether the distribution of functional responsibilities established on the basis of prior reviews is still adequate and responsive to demand. On the basis of the previous review, far-reaching decisions were taken, such as the organizational model distinguishing between operations and support functions (as opposed to programme and administration functions) and the introduction of integrated teams. A new functional review was conducted in 1999. It concentrated on areas that support operations and had the purpose of ensuring that the allocation of functions, and the associated organizational structure, maximize the efficiency and cost-effectiveness of UNOPS present business processes and those of the foreseeable future and satisfy the demands of the UNOPS clientele.

41. As a result, the need for a few changes in functional attributions emerged, which are now under way and will be completed by the second quarter 2000. These include: (a) the establishment of an internal control and oversight function that will monitor compliance with standards and procedures, will serve as focal point for internal and external audit and assist the Executive Director in providing assurance that all organizational controls are in place; (b) enhanced human resources management functions, in line with the increased delegation in personnel matters to UNOPS decided by the Executive Board in 1999, including responsibility for staff training; (c) consolidation of the procurement support functions with those pertaining to legal and contracting support; (d) establishment of a new function for relations with the Executive Board and strategic partnerships with the United Nations, associated with public information functions; and (e) the merger of the corporate business planning and business development functions. All these functions will have a direct reporting line to the Executive Director.

42. In order to reflect these adjustments, the Executive Director recommends to upgrade two existing P-5 positions to the D-1 level. This action will result in an increase of expenditures under the UNOPS administrative budget of about $20,000 per year and will be covered from UNOPS income. As mandated in paragraph 7 of Executive Board decision 94/32 of 10 October 1994, the Executive Director requests the approval to upgrade these existing two positions in the staffing table to the D-1 level.

E. New partnerships with the private sector

43. UNOPS and SPOT Image, a France-based leading supplier of satellite imagery for peaceful uses, arrived at a non-exclusive partnership agreement in 1999 with the purpose of improving the availability of integrated and cost-effective remote-sensing and geographic information services technology packages to the organizations of the United Nations system engaged in providing humanitarian, rehabilitation and development assistance to countries recovering from conflicts and natural disasters. Under this agreement, services are already being provided to UNDCP to sustain its initiatives for illicit-crop monitoring to ILO and the International Strategy for Disaster Reduction in support of their programme to rehabilitate municipalities that have been affected by natural disasters, and to a UNDP- and UNDCP-funded programme of social and economic rehabilitation of war-torn rural communities in Lebanon.

44. UNOPS also signed a partnership agreement in 1999 with the Winchester Group, a United Kingdom-based publisher. Reflecting the comparative advantage of each partner, this partnership agreement gives UNOPS responsibility for conceptualizing and organizing a two-day event on United Nations-business partnerships—The UN and Business: A Partnership for the New Millennium—while the Winchester Group manages the logistics and commercial aspects of Aid and Trade 2000—a trade show that will take place concurrently in New York City 31 May-1 June 2000. The event seeks to make an operational contribution to the Secretary-General's global compact announced at Davos in January 1999. As a major management contractor and service provider in the United Nations system, UNOPS will contribute with concrete operational solutions to translate the values of the United Nations Charter in partnerships with socially responsible corporations around the world. Gathering international chief executive officers and senior United Nations and non-governmental organization leaders, "The UN and Business: A Partnership for the New Millennium" will focus on social investment on behalf of United Nations partners involved in mine action, post-conflict rehabilitation, conflict prevention and resolution, and the "business of peace". The initiative signals the beginning of a consistent new UNOPS approach to collaboration with the private sector.

F. Procurement of personnel services

45. UNOPS recruited 5,324 experts, consultants and national professionals in 1999, a 16 per cent overall decrease when compared with the number in 1998. The share of project personnel from developing countries has however, been maintained above the 70 per cent value (figure 12), the share of female project personnel has remained constant at the 18 per cent mark, and national professionals made up 53 per cent of project personnel recruited, which corresponds to a slight 2 per cent decrease below the 1998 value of 55 per cent.

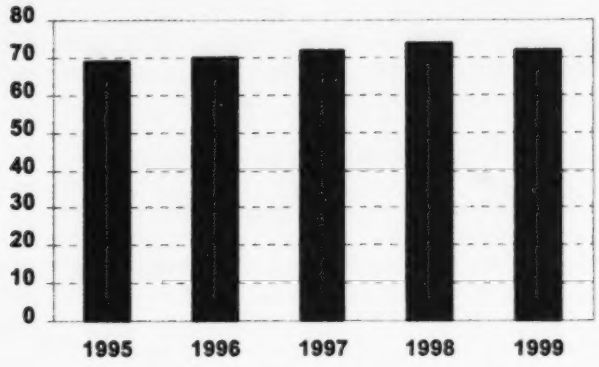


Figure 12. Share of UNOPS project personnel recruited from developing countries (per cent)

46. Work carried out by the UNOPS Training and Transfer of Knowledge Through Expatriate Nationals Services Section has continued on the upward trend although less dramatically than in 1998 (see figure 13). The Section provided training services to more than 10,000 individuals in 1999, with the number of female trainees remaining above the 33 per cent mark of trainees administered from headquarters. With 94 per cent, trainees from the Africa region continued to hold a dominant share as recipients of training services.

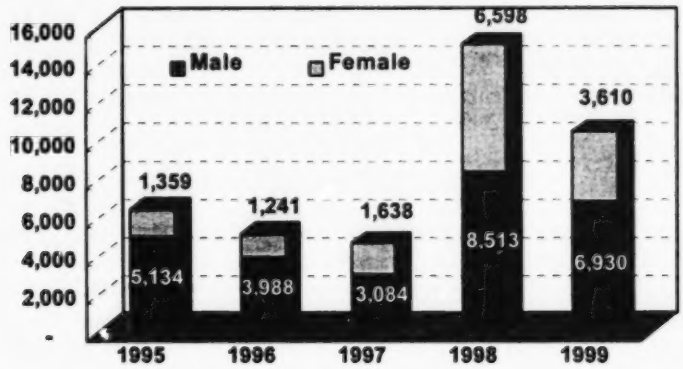


Figure 13. UNOPS trainees administered from headquarters

VI. HURDLES

47. While performance relating to the implementation of the Business Plan was relatively successful in 1999, there are a number of areas where progress was slower than expected and where unexpected difficulties were encountered.

A. Financial reporting

48. As noted in paragraphs 30 to 33, the difficulties in implementing IMIS, and more specifically, in generating accurate and timely financial reports to clients, have had an extremely negative impact on client and partner relations. The resolution of this problem is a high priority.

B. Financial arrangements with the United Nations Secretariat

49. The volume of services provided by UNOPS to the various departments and offices of the United Nations Secretariat has grown significantly (see paragraph 6 and figure 3). UNOPS and the Secretariat have yet to conclude an umbrella agreement that would address the key implementation arrangements, such as the transfer of funds to enable UNOPS to commence activities and undertake financial and other reporting. The absence of agreed arrangements remains an obstacle to the provision of services to the United Nations. This leads to a loss of opportunity for both the United Nations and UNOPS, particularly in cases where time-bound activities require immediate response from the system.

C. Agreements with UNDP

50. During 1999, UNOPS made significant strides in defining and analysing the changing nature of central services received from UNDP. Progress in certain specific areas, including human resources, information systems, and finance and treasury support, however, has been limited. This is due to three main factors:(a) heavy involvement of key UNDP and UNOPS staff throughout the year in the implementation of IMIS Release 3: Finance; (b) the significant impact that the implementation of Release 3 has had on work processes; and (c) the effect on work flows and productivity that major changes in organizational demands and priorities have caused. The resolution of these issues remains a priority and UNOPS will pursue it in 2000.

VII. FIVE-YEAR RETROSPECTIVE

51. In the discussions that eventually led to the establishment in 1995 of UNOPS as a separate entity, several themes surfaced that have remained constant factors in shaping the UNOPS response to changing demands. These include the self-financing principle; the pursuit of efficient and economical service through businesslike principles; and the challenge of diversifying both UNOPS services and clients.

52. As is demonstrated in figures 6 and 7, UNOPS has successfully adhered to the self-financing principle since its establishment. Moreover, the fact that UNOPS has been able to maintain a consistent administrative overhead (figure 10) while striving to diversify its services and clients is, in part, strong evidence of a commitment to the provision of efficient and effective services.

53. With regard to the issue of diversification, the Governing Council, in paragraph 5 of its decision 93/42 of 18 June 1993, stated that "the Office for Project Services must develop further its collaboration with other parts of the United Nations system, including, in particular, with the specialized agencies." While the Secretary-General set a new course in his report contained in document DP/1994/52 that resulted in the establishment of a separate UNOPS, he also anticipated ensuring that the new entity would operate in partnership with UNDP and other operational entities.

54. In the ensuing five years, the theme of diversification has been regularly reflected in UNOPS documents, MCC meetings, ACABQ reports, Executive Board sessions, and other documents:

(a) In his report on ways of establishing the Office as a separate and identifiable entity (DP/1994/62), the Executive Director indicated that, to respond to the needs of a broader range of clients, UNOPS expected to develop service offerings that improve its partnership with other entities of the United Nations system. UNOPS annual business plans and the annual reports of the Executive Director to the Board have all reflected this commitment;

(b) In its report on risk management, reserves and surplus income (DP/1997/28), ACABQ stressed the need for UNOPS to redouble its efforts to diversify its portfolio;

(c) In its first meeting of 1997, the MCC noted with satisfaction the positive trends in UNOPS business and reiterated its view that UNOPS should continue to diversify both its clientele and its portfolio; two years later, at the first meeting of 1999, responding to a detailed report on diversification, the MCC reiterated its satisfaction with UNOPS success in diversification and encouraged continuation of the attempt to diversify clientele. At the second meeting of 1999, the MCC, reflecting concern about trends in UNDP regular resources, urged UNOPS to make diversification of its clientele a top priority;

(d) In its report on UNOPS (A/53/788 of January 1999), the Joint Inspection Unit recommended that the Office further intensify its efforts to diversify its sources of income and its clients. In DP/1999/25, the Executive Director stated his agreement with this recommendation and asserted that it would remain a crucial part of short-term and long-term planning. In his note contained in document A/53/788/Add.1, the Secretary-General transmitted his views and those of ACC on the JIU report, concurring with the general thesis that strengthened partnerships between UNOPS and United Nations entities and specialized agencies can serve to enhance the overall support provided by the United Nations system to countries requiring development and other services from the system;

(e) The Executive Board, in its decision 99/12, also welcomed the continued progress of UNOPS in diversifying its client base and in increasing the level of services to United Nations agencies.

55. Mindful of and sharing the concerns of its legislative, management, and advisory bodies, UNOPS has unrelentingly dedicated itself to the task of providing high-quality services to a steadily expanding range of clients, all of whom can choose freely from a wide range of alternative service providers. UNOPS has been sharpening its management techniques and combining its services into customized packages to meet the increasing demands for project services from clients with mandates in all priority areas of the United Nations system, including development, governance, peace-keeping and humanitarian affairs. The information provided in paragraphs 18 to 24, amply demonstrates the unprecedented success UNOPS has had since 1995, but particularly in 1999, in responding to the mandate for UNOPS diversification. This trend is expected to continue. Figures 14 and 15 provide an indication of the level of diversification in UNOPS portfolios attained in 1999.

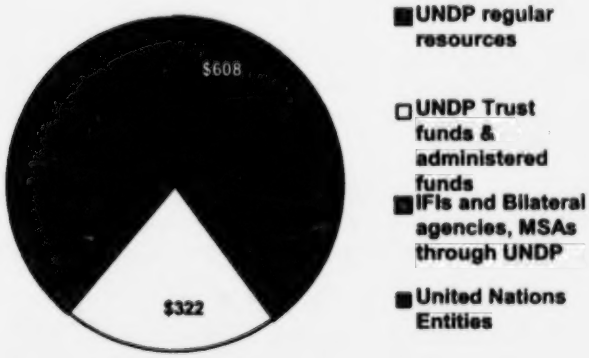


Figure 14. Composition of UNOPS 1999 project portfolio (in millions of dollars)

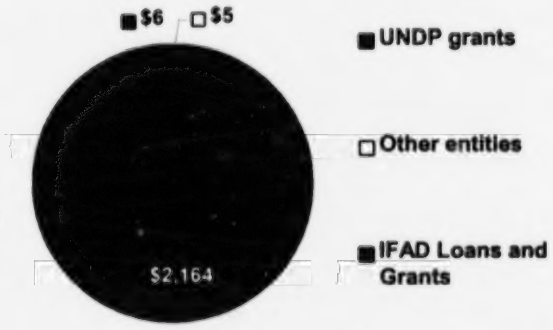


Figure 15. Value of projects in UNOPS 1999 services only portfolio (in millions of dollars)

VIII. INTERNAL OVERSIGHT

56. In submitting the report on internal audit and oversight activities (DP/2000/25/Add.1), UNOPS continues the practice established in the annual report of the Executive Director for 1997.

IX. EXECUTIVE BOARD ACTION

57. The Executive Board may wish to:

(a) Take note of the report of the Executive Director of the United Nations Office for Project Services (DP/2000/25), further noting that the Office continues to operate successfully in accordance with the self-financing principle in relation to recurring administrative expenditure;

(b) Take note of the fact that a drawdown from the operational reserve of the United Nations Office for Project Services was effected in 1999, in the amount of $13.8 million, to cover part of the non-recurring expenditure;

(c) Request the Management Coordination Committee to assist and guide the Executive Director of the United Nations Office for Project Services in overcoming the difficulties detailed in paragraphs 49 to 51 of document DP/2000/25;

(d) Request the Executive Director to submit at the first regular session 2001 a detailed report on the steps taken to implement the delegation of personnel authority requested by the Executive Board in its decision 99/17 of 15 September 1999;

(e) Approve the upgrading to the D-1 level of two existing posts at the P-5 level, effective 1 July 2000.